Deutsches Rechnungslegungs Standards Committee e.V.

Accounting Standards Committee of Germany

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Berlin, 21. August 2017

Dear Sue,

IFRS IC's tentative agenda decisions in its June 2017 meeting

On behalf of the Accounting Standards Committee of Germany (ASCG), I am writing to comment on the tentative agenda decisions taken by the IFRS Interpretations Committee (IFRS IC) and published in the June 2017 *IFRIC Update*.

Please find our specific comments in the appendix to this letter. If you would like to discuss our views further, please do not hesitate to contact Jan-Velten Große (grosse@drsc.de) or me.

Yours sincerely,

Andreas Barckow

President

Appendix – Comments on the tentative agenda decisions

IFRS 3 – Acquisition of a group of assets that does not constitute a business

We do not agree with the tentative decision, since we are not convinced that the IFRS IC's decision to offer a choice as to in which order the requirements in IFRS 3 and IFRS 9 shall be applied is appropriate. Unless there were only insignificant differences (e.g. resulting from transaction costs only) – which we do not expect to be the case –, we believe that there is only one appropriate reading of the relevant requirements.

We believe there are (only) a few reasons why a difference between the transaction price and the sum of the individual fair values could exist and (only) a few assets to which this difference should then be allocated. Based on our understanding, there are assets where there is more uncertainty – or less reliability – as regards their fair values than for other assets. This uncertainty is reflected in the (partial) transaction price deviating from the fair value of those assets. Hence, we believe that the difference should be allocated to those assets only.

Given the specific facts and circumstances provided, we deem the fair value of financial instruments to be more reliable than the fair value of non-financial instruments (e.g. PPE). Consequently, we deem only the "second approach" an appropriate reading of the requirements – which is, firstly, to measure financial instruments at their fair value (i.e. by first applying IFRS 9) and, secondly, to allocate the "difference" to all other assets based on their relative fair values (i.e. then applying IFRS 3).

IAS 28 – Acquisition of an associate or JV from an entity under common control

We agree with the tentative decision since it appropriately clarifies existing requirements and answers the narrow issue discussed. Whilst we agree that no analogy can be drawn from IFRS 3.2(c), we nevertheless question – and suggest the IASB reconsider – why there is no comparable scope exemption in IAS 28 (i.e. why there is unlike accounting in respect of interests acquired from an entity under common control).

This said, the issue discussed underlines that more fundamental and comprehensive questions around the accounting for business combinations under common control as well as the equity method are still unanswered and deserve further and timely work.

IAS 37 – Costs considered in assessing whether a contract is onerous

We do not fully agree with the tentative decision, as it lacks clarity in detail. In particular, the wording of the decision does not clarify, nor define, which costs are comprised in applying IAS 37.68 under alternative (a) (i.e. "costs that cannot be avoided when an entity has the contract") or (b) (i.e. "incremental costs"). Hence, we believe that this decision will not reduce diversity in practice.

We consider the sum of costs comprised in applying alternative (a) being more comprehensive than the sum of costs comprised in applying alternative (b). Further, we deem the wording under alternative (a) being "too wide" and the wording under alternative (b) being "too narrow" or restrictive. We believe that the answer to the question whether any of the two alternatives are an appropriate reading of IAS 37.68 depends on how (a) and (b) are defined. The proposed wording of the decision seems to be leaving maximum room for individual interpretation as to which costs shall be comprised in the assessment and therefore does not contribute to consistent application.

IAS 38 – Goods acquired for promotional activities

We do not agree with the tentative decision. From the wording of the decision, we understand that goods shall be expensed upon ownership or right to access, if their distribution was part of "promotional activities". Further, we understand that the IFRS IC interprets BC46B as implying that, if there are promotional activities, the respective goods have no other purpose than being distributed for marketing reasons. If our understanding was correct, we would disagree with the IFRS IC's thinking.

We consider the "intention to use" the goods for marketing purpose/activities to being only a necessary condition and the actual "usability" for marketing purposes to constitute the sufficient condition leading to an entity expensing the expenditures. However, we do not agree that the mere intention to use goods for marketing purposes implies that those goods necessarily have no other purpose. Instead, we think that only if and *as far as* those goods cannot be used for other purposes, any expenditure on such goods shall be recognised as marketing expenses. Hence, we would read BC46B to rather describe a (rebuttable) presumption, not a consequence.